

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

SPRINGFIELD, ILLINOIS

)	
In the Matter of)	CONSENT ORDER
)	
HOMESTAR BANK AND FINANCIAL)	FDIC-12-475b
SERVICES)	2012-DB-56
)	
MANTENO, ILLINOIS)	
)	
(ILLINOIS CHARTERED)	
INSURED NONMEMBER BANK))	
)	

HomeStar Bank and Financial Services, Manteno, Illinois, ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices alleged to have been committed by the Bank, and of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and under 38 Ill. Adm. Code, section 392, et seq., regarding hearings before the Illinois Department of Financial and Professional Regulation, Division of Banking (the "Division"), and having waived those rights, by and through its duly elected

and acting Board of Directors ("Board") entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and the Division, dated May 7, 2013, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices, the Bank consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC and the Division.

The FDIC and the Division considered the matter and determined to accept the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and section 48(6) of the Illinois Banking Act, 205 ILCS 5/48(6), have been satisfied, the FDIC and the Division HEREBY ORDER, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns take affirmative action as follows:

MANAGEMENT

1. (a) During the life of this ORDER, the Bank shall have and retain qualified management. Management shall be provided the necessary written authority to implement the provisions of this ORDER. The qualifications of management shall be assessed on its ability to:

- (i) comply with the requirements of this ORDER;
- (ii) operate the Bank in a safe and sound manner;
- (iii) comply with applicable laws, rules, and regulations; and
- (iv) restore all aspects of the Bank to a safe and sound condition, including capital adequacy, asset quality, management effectiveness, earnings, liquidity, and sensitivity to interest rate risk.

(b) During the life of this ORDER, prior to the addition of any individual to the Board or the employment of any individual as a senior executive officer, the Bank shall request and obtain the written approval of the Regional Director of the FDIC's Chicago Regional Office ("Regional Director") and the Division. For the purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act ("section 32"), 12 U.S.C. § 1831i, and section 303.101(b) of the FDIC's Rules and Regulations, 12 C.F.R. § 303.101(b).

CAPITAL

2. (a) By June 30, 2013, the Bank shall have and maintain its level of Tier 1 capital as a percentage of its total assets ("capital ratio") at a minimum of eight percent (8%) and its level of qualifying total capital as a percentage

of risk-weighted assets ("total risk based capital ratio") at a minimum of twelve percent (12%). For purposes of this ORDER, Tier 1 capital, qualifying total capital, total assets, and risk-weighted assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) If, while this ORDER is in effect, the Bank increases capital by the sale of new securities, the Board shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held by or controlled by them in favor of said plan. Should the implementation of the plan involve public distribution of Bank securities, including a distribution limited only to the Bank's existing shareholders, the Bank shall prepare detailed offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and other material disclosures necessary to comply with Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 days prior to the dissemination of such materials, the materials used in the sale of the securities shall be submitted to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429 for its review. Any changes requested to be made in the

materials by the FDIC shall be made prior to their dissemination.

(c) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of Bank securities written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 calendar days of the date any material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber of the Bank's original offering materials.

(d) Should the Bank be unable to reach the required capital levels within the time frames specified in subparagraph (a) above, or be unable to maintain those levels, then within thirty (30) days of receipt of written direction from the Regional Director and the Division, the Bank shall develop, adopt, and implement a written plan to sell or merge itself into another federally insured financial institution or otherwise immediately obtain a sufficient capital investment into the Bank to fully meet the capital requirements of this paragraph. A copy of the plan required by this paragraph shall be submitted

to, and determined to be acceptable by, the Regional Director and the Division.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

3. (a) As of the effective date of this ORDER, the Bank shall not extend directly or indirectly, any additional credit to, or for the benefit of, any borrower who is already obligated in any manner to the Bank on any extensions of credit (including any portion thereof) that has been charged off the books of the Bank or classified "Loss" in the Report of Examination dated July 9, 2012 ("Report") or at subsequent examinations or visitations so long as such credit remains uncollected.

(b) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower whose loan or other credit has been classified "Substandard", "Doubtful", or "Special Mention" in the Report or at subsequent examinations or visitations and is uncollected unless the Board or loan committee has adopted, prior to such extension of credit, a detailed written statement giving the reasons why such extension of credit is in the best interest of the Bank. If only the loan committee adopts the written statement, it must also be presented to the Board and reflected in the Board's meeting minutes. A copy of the statement shall be placed in the

appropriate loan file and shall be incorporated in the minutes of the applicable Board meeting.

ALLOWANCES FOR CONTINGENT LIABILITIES

4. (a) Within ninety (90) days of the effective date of this ORDER, the Bank shall adopt written procedures for establishing allowances that adequately reflect risks inherent in its off-balance sheet activities.

(b) Copies of the written procedures required by this paragraph shall be acceptable to the Regional Director and the Division.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

5. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to, a written plan to reduce the Bank's risk position in each asset more than ninety days delinquent or each asset of \$300,000 or more which is classified "Substandard" in the Report or at subsequent examinations or visitations. The plan shall include, but not be limited to, provisions which:

- (i) provide for review of the current financial condition of each delinquent or classified borrower, including a review of borrower cash flow and collateral value;

- (ii) delineate areas of responsibility for loan officers;
- (iii) establish dollar levels to which the Bank shall reduce delinquencies and classified assets within 6 and 12 months from the effective date of this ORDER; and
- (iv) provide for the submission of monthly written progress reports to the Bank's Board for review and notation in minutes of the meetings of the Board.

(b) As used in this paragraph, "reduce" means to: (1) collect; (2) charge off; (3) sell; or (4) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC or the Division.

(c) A copy of the plan required by this paragraph shall be submitted to the Regional Director and the Division.

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become more than 90 days delinquent after the effective date of this ORDER or assets over \$300,000 adversely classified at subsequent examinations or visitations.

OTHER REAL ESTATE

6. During the life of this ORDER, the Bank shall comply with its written policy to manage the Bank's Other Real Estate.

LENDING AND COLLECTION POLICIES

7. During the life of this ORDER, the Bank shall comply with its written lending and collection policies.

DIVIDEND RESTRICTION

8. As of the effective date of this ORDER, the Bank shall not declare or pay any dividend without the prior written consent of the Regional Director and the Division.

ALLOWANCE FOR LOANS AND LEASE LOSSES

9. (a) Prior to submission or publication of all Reports of Condition and Income required by the FDIC after the effective date of this ORDER, the Board shall review the adequacy of the Bank's ALLL, provide for an adequate ALLL, and accurately report the same. The minutes of the Board meeting at which such review is undertaken shall indicate the findings of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of ALLL provided. In making these determinations, the Board shall consider the FFIEC Instructions for the Reports of Condition and Income and Interagency Policy Statement on the Allowance for Loan and Lease

Losses and any analysis of the Bank's ALLL provided by the FDIC or Division.

PROFIT PLAN AND BUDGET

10. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall maintain and adhere to a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2013 and 2014. The plans required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, to reduce discretionary expenses and to improve the Bank's overall earnings, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written profit plan shall address, at a minimum:

- (i) Realistic and comprehensive budgets;
 - (ii) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;
 - (iii) Identification of major areas in which, and means by which, earnings will be improved;
- and

(iv) A description of the operating assumptions that form the basis for and adequately support major projected income and expense components.

(c) During each monthly Board meeting following completion of the profit plans and budgets required by this paragraph, the Board shall evaluate the Bank's actual performance in relation to the plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the Board meeting at which such evaluation is undertaken.

(d) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect.

(e) Copies of the plans and budgets required by this paragraph shall be submitted to the Regional Director and the Division.

REDUCTION OF CONCENTRATIONS

11. The Bank shall continue to implement the written plan to reduce the concentration in commercial real estate.

LIQUIDITY REPORTING

12. During the life of this ORDER, the Bank shall submit to the Regional Director and the Division liquidity analysis reports in a format acceptable to the Regional Director and the Division on a weekly or more frequent basis (if requested by the Regional Director and Division). The liquidity analysis reports shall also be submitted to the Board for review and notation in the Board minutes.

NOTIFICATION TO SHAREHOLDER

13. Following the effective date of this ORDER, the Bank shall send to its shareholder a copy of this ORDER: (1) in conjunction with the Bank's next shareholder communication; or (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting.

PROGRESS REPORTS

14. Within thirty (30) days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and the Division written progress reports signed by each member of the Board, detailing the actions taken to secure compliance with the ORDER and the results thereof.

This ORDER shall be effective on the date of issuance.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the FDIC and the Division.

Pursuant to delegated authority.

Dated: May 14, 2013.

/S/
M. Anthony Lowe
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

/S/
Scott D. Clarke
Assistant Director
Illinois Department of
Financial and Professional
Regulation, Division of
Banking